

## Message Text

SECRET

PAGE 01 BELGRA 02293 01 OF 02 141006Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----141010Z 067840 /12

P 131406Z APR 77  
FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC PRIORITY 256

S E C R E T SECTION 1 OF 2 BELGRADE 2293

EXDIS

C O R R E C T E D C O P Y (TEXT)

FROM CHARGE

EO 11652: GDS  
TAGS: ENRG, TECH, YO, US  
SUBJECT: NON-PROLIFERATION ND NUCLEAR EXPORTS: KRSKO

REFS: (A) BELGRADE 2183 (B) STATE 70150 (C) BELGRADE 2092  
(D) BELGRADE 2258

1. SUMMARY. CONTINUATION OF THE STATUS QUO ON KRSKO  
LICENSE FOR VERY MUCH LONGER THREATENS TO LEAD TO LONG  
DELAYS OR PROJECT COLLAPSE. THE BARGAINING POWER OF GOY  
NEGOTIATOR, BERNARDIC, APPEARS TO HAVE NARROWED WITH  
DECISIONS NOW BEING MADE AT HIGHEST LEVEL IN GOY.  
OF THE OPTIONS AVAILABLE TO THE USG, I WOULD RECOMMEND  
ISSUANCE OF THE EQUIPMENT LICENSE IN EXCHANGE FOR GOY  
STATEMENT ALONG LINES THEY NOW PREPARED TO GIVE WITH  
CLEAR INDICATION TO GOY THAT ISSUANCE OF FUEL LICENSE  
IS CONTINGENT UPON GOY AGREEMENT TO CONSULTATION WITH  
US (OR EQUIVALENT) ON RETRANSFER AND REPROCESSING.  
THIS KIND OF FLEXIBILITY WHILE INCURRING RISKS MAY BE  
NECESSARY IN THE OVERALL EFFORTS OF THE USG TO SEEK  
STRONGER COMMITMENTS FROM OTHER NATIONS ON NON-PROLIFERATION.

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END SUMMARY.

2. THE KRSKO SITUATION HAS REACHED A LEVEL OF URGENCY  
THAT SUGGESTS A RE-EXAMINATION OF THE CURRENT  
USG BARGAINING POSITION. IT IS A QUESTION NOT JUST OF  
MONTHLY MULTIMILLION-DOLLAR LOSSES BUT OF A YEAR'S  
DELAY OR EVEN A PROJECT COLLAPSE. BOTH WESTINGHOUSE

AND THE YUGOSLAV INVESTORS MAINTAIN THAT UNLESS THE HEAVY EQUIPMENT BEGINS ARRIVING BY JUNE 1, DELIVERIES OF THE EQUIPMENT FROM PORT TO SIT RISK BEING DELAYED ANOTHER YEAR. WE HEAR REPORTS THAT THE PRIVATE BANK CONSORTIUM MAY NOT AUTHORIZE THE NEXT LOAN DISBURSEMENT IN LAST MAY IF THE LICENSE IS NOT ISSUED BY THEN. WESTINGHOUSE WILL PROBABLY SEEK TO PROTECT ITSELF BY INVOKING FORCE MAJEURE. I AM CONVINCED THAT PROJECT COLLAPSE WOULD BE A DISASTER FOR US INTERESTS NOT ONLY IN YUGOSLAVIA BUT ALSO IN THE GLOBAL CONTEXT OF OUR NEW NON-PROLIFERATION POLICIES.

3. APPRAISAL. THE PRESENT STATE OF NEGOTIATIONS SHOWS LITTLE PROSPECT OF BREAKING THE CURRENT IMPASSE. BASED ON PATTERN OF NEGOTIATIONS, SFR REPORTING AND MY OWN ANALYSIS OF SITUATION, I AM PERSUADED THAT DECISIONS ON KRSKO ARE NOW BEING MADE AT EXTREMELY HIGH POLITICAL LEVEL, CERTAINLY KARDELJ AND POSSIBLY TITO AS WELL. WHATEVER FLEXIBILITY THE CHIEF GOY NEGOTIATOR, BERNARDIC, MAY HAVE HAD DURING VEST- ARMITAGE-HOYLE VISIT HAS DISAPPEARED AND THE SHOTS ARE BEING CALLED BY THOSE IN UPPER LEVELS OF HIERARCHY. THEY LOOK ON KRSKO AS POLITICAL PROBLEM, SEE THEMSELVES AS SUBJECT TO AND VALIANTLY RESISTING US PRESSURE AND PLAN TO COUNTER THAT PRESSURE BY INTERNATIONALIZING DISPUTE AND TAKING THEIR CASE TO THEIR THIRD WORLD ALLIES. THEIR NEW DELHI GAMBIT (NEW DELHI 4936 AND 5203) IS FIRST STEP IN THIS CAMPAIGN. IF NECESSARY, THEY MAY BE PREPARED TO ACCEPT HIGH ECONOMIC COSTS INVOLVED IN

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WITHDRAWAL OF US SUPPORT FOR KRSKO. BERNARDIC IS UNDER STRICT INSTRUCTIONS TO MAKE NO SUBSTANTIVE CONCESSIONS, AND WHILE HE IS FREE TO EMBELLISH ON EXISTING YUGOSLAV COMMITMENTS, HE MAY NOT RPT NOT GO BEYOND THEM.

4. THERE IS STILL THE POSSIBILITY THAT BERNARDIC, AN EXCELLENT NEGOTIATOR, MAY HAVE ADOPTED HARD LINE IN ORDER TEST PARAMETERS OF US POSITION. IN LAST MEETING I MADE EXTREMELY STRONG STATEMENT OF US CASE, EMPHASIZING FACT THAT ADDITIONAL CONTROLS OVER DISPOSITION AND TRANSFER WERE NECESSARY FOR THE USG. IN REPLY BERNARDIC CONTINUED TO SUGGEST FURTHER DISCUSSIONS. SINCE YUGOSLAVS HAVE NO RPT NO REASON TO SUPPOSE FROM ANYTHING I HAVE SAID SINCE TEAM LEFT THAT US PREPARED TO CONCEDE AND SINCE THIS MESSAGE REINFORCED BY ARMITAGE-PETKOVIC CONVERSATION (STATE 070150), BERNARDIC MAY HAVE BEEN TESTING THE LIMITS OF USG FLEXIBILITY AND MAY NOW BE WILLING TO MAKE CONCESSIONS. GIVEN THE ACCUMULATING

LOSSES AND THE SUDDEN HARDENING OF THE GOY POSITION,  
I DOUBT IT. IF BY NEXT WEEK BERNARDIC HAS NOT SOUGHT  
TO RENEW NEGOTIATIONS, I THINK THIS THESIS CAN BE  
DISCARDED AND WE CAN ASSUME BERNARDIC'S HARD LINE  
IS MORE THAN TACTICAL.

5. OPTIONS. WE HAVE NO EASY RISK-FREE OPTION OPEN TO  
US; ALL OF THE FOLLOWING POSE DRAWBACKS AND RISKS.  
HOWEVER, I SEE THE FOLLOWING AS OUR MAJOR POSSIBILITIES:

(A) SEEK NEW NEGOTIATING GROUNDS. TWO FORMULAS  
SUGGEST THEMSELVES: FIRST, THAT THE USG CONTRACTS TO  
BUY BACK ALL SPENT FUEL REGARDLESS OF ORIGIN FROM KRSKO  
REACTOR OR TAKE AN OPTION TO DO SO; SECOND, THE YUGOSLAV  
INVESTORS AGREE TO BY US ENRICHMENT SERVICES FOR THE  
LIFETIME OF THE KRSKO REACTOR (THEY ALREADY HAVE AN OPTION  
TO BUY 20 YEAR SUPPLY IN ADDITION TO THE PURCHASE OF  
10 YEAR SUPPLY). THE FIRST FORMULA COULD BE CONSIDERED

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A POOR PRECEDENT. HOWEVER, IT MAY WELL REPRESENT  
THE COST OF OUR NEW NON-PROLIFERATION POLICIES AND OFFERS  
THE ULTIMATE GUARANTEE AGAINST DIVERSION. BOTH FORMULAS  
RISK INCITING YUGOSLAV SUSPICIONS THAT WE ARE SEEKING

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----140747Z 066159 /14  
P 131406Z APR 77  
FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC PRIORITY 257

S E C R E T SECTION 2 OF 2 BELGRADE 2293

EXDIS

FROM CHARGE'

COMMERCIAL ADVANTAGE, AND BOTH MAY ULTIMATELY PROVE

UNACCEPTABLE TO GOY GIVEN STRESS PLACED  
ON NEED TO AVOID ANY ADDITIONAL COMMITMENTS.

(B) STANDFAST. HERE WE WOULD SIMPLY REITERATE OUR ARGUMENTS AND HOPE FOR YUGOSLAV CONCESSION. WE MIGHT POSSIBLY WISH EXPLORE OTHER FORMULAS SUCH AS THAT SUGGESTED BELGRADE 2092. PROBABLY WE WOULD WANT TO GO PUBLIC SOON IN PRESENTING OUR CASE DOMESTICALLY AND INTERNATIONALLY IN MOST PERSUASIVE MANNER POSSIBLE. WE MIGHT WANT CONGEN ZAGREB TO BRIEF CROATIAN AND SLOVENIAN LEADERS, WITH THE IMPLIED MESSAGE BEING THAT THEIR ECONOMIC INTERESTS ARE BEING SOLD OUT IN ORDER ACHIEVE BELGRADE'S POLITICAL GOALS. RISKS OF THIS COURSE ARE IN POISONING OF BILATEKWL RELATIONS AS CRITICAL POST-TITO TRANSITION APPROACHES AND UNDERCUTTING RELATIVELY MODERATE AND PRO-US YUGOSLAV LEADERS WHO SUPPORTED KRSKO. WE COULD ALSO COUNT ON VIGOROUS YUGOSLAV CAMPAIGN TO UNDERMINE ADMINISTRATION'S NON-PROLIFERATION AND DISARMAMENT OBJECTIVES WITHIN NONALIGNED MOVEMENT, WITHIN WHICH YUGOSLAVIA HAS CONSIDERABLE INFLUENCE.

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(C) THROW IN THE TOWEL. TAKE WHAT YUGOSLAVS WILLING TO GIVE US AND PROCEED TO RAPIDLY LICENSE KRSKO CONSTRUCTION AND FUEL. WHILE YUGOSLAV STATEMENT IS NOT BY ANY MEANS WITHOUT SOME POLITICAL BENEFIT FOR US, RISK IN THIS COURSE IS THAT WE WOULD UNDERMINE CREDIBILITY OF ADMINISTRATION'S NON-PROLIFERATION POLICY WHEN IT HAD BARELY GOTTEN OFF GROUND. IF WE MADE EXCEPTION FOR YUGOSLAVIA, WE WOULD BE HARD PRESSED TO TAKE FIRM LINE WITH OTHER RECIPIENTS OF US FUEL AND TECHNOLOGY.

(D) "MEXICAN" SOLUTION. WHILE THIS NOMENCLATURE NOT EXACT SINCE MEXICAN CONSTRUCTION LICENSE GRANTED IN 1974 BEFORE NRC CREATED AND ADMINISTRATION'S POLICY REVIEW COMPLETED, AS WE UNDERSTAND SITUATION PRINCIPLE WOULD BE SAME; I.E., WE WOULD GRANT CONSTRUCTION LICENSE, BUT INSIST ON YUGOSLAV ACCEPTANCE OF OUR CONDITIONS BEFORE LICENSING FUEL. IN ORDER PUT BEST FACE POSSIBLE ON SITUATION, WE WOULD REQUIRE YUGOSLAV UNILATERAL STATEMENT TO IAEA

AS CONDITION FOR CONSTRUCTION LICENSE AND WOULD MAKE CLEAR TO THEM NOW THAT SINE QUA NON FOR FUEL LICENSE WILL BE CONSULTATION WITH US OR ITS EQUIVALENT. RISK IS THAT YUGOSLAVS WOULD TAKE CONSTRUCTION LICENSE, SUBSEQUENTLY REJECT OUR CONDITIONS AND OBTAIN FUEL AND ENRICHMENT SERVICES ELSEWHERE.

6. RECOMMENDATION. I PERSONALLY FAVOR OPTION (D).  
IT WOULD DEFUSE KRSKO AS A BILATERAL ISSUE, MIGHT BE  
ENOUGH TO SECURE MORE POSITIVE YUGOSLAV STANCE IN THE UPCOMING  
UN SPECIAL SESSION ON DISARMAMENT, WOULD TEND TO  
UNDERCUT CREDIBILITY OF YUGOSLAV CHARGE THAT WE  
USING PRESSURE TACTICS AND BALCKMAIL TO HAVE OUR  
WAY, AND COULD, BY JUUDICIOUS COMPARISON WITH  
MEXICAN SITUATION, AVOID WEAKENING OUR OVERALL NON-  
PROLIFERATION STRATEGY.

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7. WHICHEVER OF THESE OPTIONS CHOSE, DEPARTMENT  
MIGHT WISH TO CONSIDER RENEWING INVITATION FOR YUGOSLAV  
TEAM TO VISIT WASHINGTON, OR ALTERNATIVELY DESPATCH NEW  
NEGOTIATING TEAM TO BELGRADE. I PERSONALLY DO NOT  
FEEL THIS BY ITSELF WOULD BREAK PRESENT IMPASSE, BUT  
I WOULD SEE NO HARM TO OUR POSITION COMING FROM IT,  
AND IT WOULD REINFORCE IMAGE OF US ACTIVELY SEEKING  
SOLUTION TO KRSKO PROBLEM. IN ANY EVENT, WE WOULD  
APPRECIATE A REPLY ASAP. YORK

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## Message Attributes

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**To:** STATE  
**Type:** TE  
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